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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF DEFENSE MOBILIZATION
Washington 25, D. C.

Office of the Director

March 8, 1955

MEMORANDUM FOR THE CHAIRMAN
OPERATIONS COORDINATING BOARD

In the Cabinet Committee meetings on the present situation in copper, nickel, and aluminum, and in subsequent discussions arising from the National Security Council, the Office of Defense Mobilization had requested as much information as was available from the Central Intelligence Agency on the movements of particularly copper and nickel behind the Iron Curtain or to Communist China. It was suggested and agreed upon in the Council discussions on the CIA briefings, where this question arose, that it would be appropriate to ask for a more systematic inquiry on this point from the Operations Coordinating Board.

It is the hope of the ODM that the Government will presently be so organized that studies of this character which may involve, and to some degree certainly do involve, a program of economic warfare against the United States by the Soviet Union, can be made the subject of continuous study and current information put at the disposal of the ODM. In the immediate instance, two matters of importance to the ODM are raised by the increased shipments of copper products, including all forms of wire as well as copper in the finished state, in abnormal quantities to the USSR, its satellites, and probably to China:

1. The first is that the volume of these shipments taken in conjunction with the British dock strike and the strikes of the Rhodesian copper mines have the effect of drawing on sources of copper normally available to the U.S. and of siphoning large exports from the US with a serious effect on world prices. We are informed that copper prices in the London market have currently gone to something around 42 cents a pound. Whereas the price normally in operation in the U.S. has gone up to 33 cents and represents a considerable increase over the price at which copper was held during most of the Korean period of activities, premium prices are beginning to be paid by many American manufacturers, due in part to the heavy demands of the automotive industry. Canada proposes to divert more of its supplies for sale abroad at higher prices and our Chilean imports may be seriously affected also, in spite of the measures which the ODM is presently contemplating and about which you are informed.
2. The application of stricter export controls may be able to offset in some measure the drain on U.S. supplies of domestic copper. Unless, however, they are accompanied by agreements with the United Kingdom

FEMA and NSC review(s) completed.

- 2 -

and other European suppliers to cease or cut down materially copper shipments to countries behind the Curtain, the net effect on the world market may simply be further to increase prices. It is our hope that the necessary agreements may be forthcoming and that export controls may be used in a manner that will help to induce these agreements, by cutting down exports in proportion to the degree that foreign countries are exporting copper to destinations behind the Curtain and, therefore, in effect, merely working out a trans-shipment from the U.S. This, of course, is the case when they sell their own domestic supplies and replace these by imports from the U.S. in order to increase their exports abnormally by large shipments behind the Curtain.

In the light of these problems of the ODM, it would be useful if the Operations Coordinating Board could:

- A. reach the best determinations available of the increased amounts of copper in all forms which are presently going behind the Curtain through covert as well as overt channels; and
- B. work out programs which would effectively help to prevent this abnormal drain on the short supplies available to the U.S., with its resultant price inflation and scarcity and the slowing down of the rate at which we can build up strategic stocks in the stockpile. We should be glad to furnish assistance in this matter, as I am sure the Department of Commerce would also.

I have used copper as an example, but it would be advantageous to see, if possible, whether the same operation were not also developing in nickel and probably in others of the more important of the strategic materials. Some attention should certainly be paid to cobalt, tantalum, columbium, and to others of the alloying materials insofar as the information can be developed.

Since speed is important, however, a priority of attention should be given to copper and to nickel. Would you let me know in the first instance whether such information can be rapidly developed for the guidance of current actions by the ODM, and in the second place keep us informed as to the programs which seem likely to be most effective in countering this action on the part of the Soviet system where it affects the basic strategic supplies of the U.S. and our price structure.

I enclose a copy of the memorandum which I have sent to you as Under Secretary of State.

/s/ Arthur S. Flemming

Arthur S. Flemming
Director

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A. Bloc Imports

A tentative estimate of Bloc imports in 1953 of all forms of copper suggests a minimum of 110,000 tons, rising to 125,000 tons in 1954. These estimates are currently being reviewed [redacted] and may be re- 25X1
^{upward}
vised subsequently. Over one half of the 1954 imports occurred after 16 August 1954, following the removal of uncovered copper wire from embargo.

Chilean copper moves from Chilean ports to West European refineries and/or to West European ports for onward shipment to the Bloc. Mexican copper moves in a similar pattern. Although the Belgian Congo and Rhodesia are important producing areas only a few reports identify copper from this origin as moving to the Bloc via European Free Ports. The flow of Turkish copper bound for the Bloc via West European Free Ports diminished after Turkey entered COCOM

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[redacted]
Near Eastern copper scrap is

shipped to the Bloc from the Mediterranean to the Black Sea ports.

B. Bloc Production in 1953 - 354,000 Metric Tons (Recoverable Copper Content of ore) 14.3% of Free World Production

C. Consumption and Strategic Reserves

Estimated strategic stock piles in the USSR are 240,000 metric tons while operational reserves and inventories total 175,000 tons. Total Bloc consumption (including additions to reserves) exceeds total current production, the USSR plans to increase copper production in the current five year plan. Soviet resources for such an expansion are limited and the plans

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are not being fulfilled. This failure assumes additional significance when it is realized that Soviet planners apparently set the planned rate of growth for the copper producing industry at a slower rate than the growth rate planned for copper consuming industries. Thus, even if planned growth of the copper industry was realized, there would still be a gap between production and consumption through 1960.

It is difficult to measure, precisely, the contributing effect Bloc demand has had on the recent world increases in copper prices. The labor strikes in mining and shipping were major contributors to the increase but it is the consensus of market opinion that the pressure of Bloc bids has played a significant part in increasing copper prices. For example, one market service reports standing Bloc bids in Europe at four cents per pound over the market.

It is possible that future Bloc demands will have some impact on copper prices. The President's Materials Policy Commission concluded in 1952 that the normal growth of Free World needs for copper in the period through the mid 1970's would require a very large investment effort. Known copper resources are ample to take care of any foreseeable needs, but their development and exploitation will at most keep pace with growing demand, and more probably will lag slightly behind that growth due to hindrances to investment in the underdeveloped countries in which the bulk of the resources are found. It is therefore reasonable to conclude

SECRET

SECRET

- 3 -

that any superposition of Bloc demand on the Free World copper market during the next decade or so would serve to maintain copper at a relatively high price, and any serious Bloc deficiency in copper over the long term could well produce temporary but serious spot difficulties and promote general instability in the world market.

D. Free World Copper Mine Production (copper content of ore) 1953

<u>Principal Countries</u>	<u>Thousand Metric Tons</u>	<u>Percent Total</u>
United States	861	34.7
Northern Rhodesia	380	15.3
Chile	364	14.7
Canada	230	9.3
Belgian Congo	214	8.6
Mexico	64	2.6
Japan	58	2.3
All others	309	12.5
Total Free World	2,480	100.0

E. Trade Control on Copper

Current Position

Embargo on copper and copper base alloys in the form of ores and concentrates, scrap, metal, and semifinished products. Surveillance on uncovered wire and cable and on insulated single strand conductor wire of 0.014 inch or less diameter. No control of other insulated wire and cable.

Recent Changes

The items now under surveillance were under complete embargo until

- 4 -

16 August 1954.

NICKEL

A. Bloc Imports - 1954 (From Free World)

	<u>Metric Tons</u>	<u>Percent Total</u>
USSR	0	0
Satellites	<u>820</u>	<u>100.0</u>
Total	820	100.0

These imports amounted to about $\frac{1}{2}$ of 1 percent of Free World production.

There are diversions of nickel sulphate into the Bloc in addition to metallic nickel. The total nickel content of these imports is small in comparison with the USSR nickel supply, although they represent an important source to some of the Satellites. The usual route of diversion to the Bloc is via West European Free Ports. In addition, it has been reported that shipments have moved by truck from West to East Germany. Japanese traders have been mentioned in a few instances.

B. Bloc Production - 1954

	<u>Metric Tons</u>	<u>Percent Total</u>
USSR	45,000	99.0
Satellites	500	1.0
Total Bloc	45,500	100.0

C. Bloc Consumption and Strategic Reserves

It is estimated that Bloc production is sufficient to take care of minimum essential requirements but that in the event of the removal of

SECRET

- 5 -

trade controls on nickel, a Bloc buying campaign would ensue for the purpose of adding to strategic reserves and for expansion of industrial uses.

D. Free World Production - 1954

	<u>Metric Tons</u>	<u>Percent Total</u>
Canada	145,000	82.0
Cuba	15,000	8.5
New Caledonia	15,000	8.5
Other	<u>1,900</u>	<u>1.0</u>
Total Free World	176,900	100.0

SECRET

- 6 -

E. Trade Controls on Nickel

Current Position:

Embargo on nickel and nickel base alloys containing 30% or more nickel in the form of ores and concentrates, oxide and scrap, metal, semifinished products, and powder. Nickel-bearing steels containing 35% or more of alloying elements are also embargoed.

Quantitative control on nickel-bearing alloy steels having a nickel content of 6% or more and a combined nickel-chromium content of 22% or more, including steel tubing of specified sizes with the above ranges of nickel and chromium contents.

Surveillance of nickel-bearing alloy steels containing 4% or more nickel, and of rings containing 30% or more nickel.

Recent Changes:

Powder, now embargoed, was not controlled until recently. Rings formerly embargoed, are now only partially under surveillance. Current control of nickel-bearing stainless steels was established in 1954.

COBALT

A. Bloc Imports - 1954 (From Free World): 200 tons

Bloc offers of premium prices for Free World cobalt are indicative of at least local shortages of cobalt. Cobalt imported by the Bloc during 1954 originated mainly at two refineries, one in West Germany and the other in France. The pattern of diversion involved sales to a Swiss firm and subsequent

- 7 -

transshipment via Antwerp and Rotterdam. Smaller lots of cobalt have been diverted via Switzerland and Italy.

B. Bloc Production - 1954: 1910 tons

C. Bloc Consumption and Strategic Reserves

No available estimates on consumption and strategic reserves.

D. Free World Production - 1953

	<u>Metric Tons</u>	<u>% Total</u>
Australia	11	.1
Belgian Congo	8,278	69.0
Canada	796	6.6
Finland	800	6.7
Italy	33	.3
French Morocco	600	5.0
Northern Rhodesia	677	5.6
United States	<u>805</u>	<u>6.7</u>
TOTAL	12,000	100.0

E. Trade Controls on Cobalt

Current Position:

Embargo on ores, metals, certain compounds and alloys, and scrap

ALUMINUM

The Bloc imported a small amount of aluminum in 1953 (about 18,000 tons), mostly from Norway. Some of this amount was imported in excess of COCOM quotas. Bloc production of aluminum is generally adequate for Bloc needs and the small imports were probably the result of political considerations and local demand in peripheral areas of the Bloc.

- 8 -

COLUMBIUM AND TANTALUM

The Bloc is not known to have imported either of these metals. It is not possible to ascertain whether this is due to lack of demand for external supplies or to the embargo placed on these metals.

There has been much discussion on multilateral payments possibilities in East-West trade. If, however, a particular country experiences chronic difficulty in balancing accounts with each of its trading partners, it has only limited possibility of benefiting from an increased flexibility in international payments. The Satellites have shown a tendency to be in this position. Consequently, increased facilities for multilateral settlements would have little practical effect or, if accompanied by credit provisions as part of the settlement mechanism, would give rise to chronic debtor positions on the part of Eastern European countries. On the other hand, multilateralism presents certain risks for countries in a weak competitive position. They may prefer to adhere to bilateral trading methods as a means of pushing their exports in return for their imports.

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